Supreme Court
FILED
DEC - 9 2
OFFICE OF THE

No. 14-1513

In the Supreme Court of the United States

HALO ELECTRONICS, INC.,

Petitioner,

v.

PULSE ELECTRONICS, INC.,
PULSE ELECTRONICS CORPORATION,

Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITIONER'S OPENING BRIEF

CRAIG E. COUNTRYMAN
Counsel of Record
Fish & Richardson P.C.
12390 El Camino Real
San Diego, CA 92130
(858) 678-5070
countryman@fr.com

MICHAEL J. KANE
WILLIAM R. WOODFORD
JOHN A. DRAGSETH
Fish & Richardson P.C.
3200 RBC Plaza
60 South Sixth Street
Minneapolis, MN 55402
(612) 335-5070

Counsel for Petitioner Halo Electronics, Inc.

QUESTION PRESENTED

Whether the Federal Circuit erred by applying a rigid, two-part test for enhancing patent infringement damages under 35 U.S.C. § 284, that is the same as the rigid, two-part test this Court rejected last term in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014) for imposing attorney fees under the similarly-worded 35 U.S.C. § 285.

RULES 14.1(b) AND 29.6 STATEMENT

All parties are identified in the caption of this petition. No publicly held corporation owns 10% or more of Halo Electronics, Inc.

TABLE OF CONTENTS

Page

QUESTION PRESENTED i
RULES 14.1(b) AND 29.6 STATEMENT ii
OPINIONS BELOW 1
JURISDICTION 1
CONSTITUTIONAL, STATUTORY, AND REGULATORY PROVISIONS INVOLVED 1
INTRODUCTION 2
STATEMENT OF THE CASE 3
A. Pulse Copied Halo's Invention and Then Expanded Its Infringement After Spurning Halo's Invitations to License. 3
B. The Proceedings Below 6
1. The District Court Was Bound by the Federal Circuit's Rigid, Erroneous Test for Enhancement 6
2. The Federal Circuit Failed to Follow This Court's 2014 Decision in Octane. 7
SUMMARY OF THE ARGUMENT 10
ARGUMENT 12
I. Section 284 Gives District Courts Flexibility to Balance All Relevant Facts When Deciding to Enhance Damages. 12
A. The Statutory Text Is Plain and Broad. 12
B. The Application of § 284's Predecessors Provided Flexibility for District Courts. 13
C. The Lower Courts Also Recognized § 284's Broad Language and Applied a Flexible Standard Before *Seagate* 16

TABLE OF CONTENTS—continued

Page

D. *Octane* and *General Motors* Require Enforcing § 284 as Written. 18

II. The Federal Circuit Has No Support for Its Application of § 284 19

A. There Is No Support for Requiring Willful Infringement to Enhance Damages 20

B. The Federal Circuit's Two-Part "Willfulness" Test Conflicts with the Statute 21

C. There Is No Basis for the Federal Circuit's "Any-Defense-at-Any-Time" Approach. 24

D. The Federal Circuit's Standards of Proof and Appellate Review Are Unsupported. 25

III. This Court Should Restore Enhanced Patent Damages Law to the Flexible Inquiry Required by § 284. 27

IV This Court Should Vacate the Judgment and Remand So the District Court Can Apply the Correct Legal Standard. 29

CONCLUSION 30

TABLE OF AUTHORITIES

Page(s)

Cases

Am. Safety Table Co. v. Schreiber,
415 F.2d 373 (2d Cir. 1969) 16

Aro Mfg. Co. v. Convertible Top Replacement Co.,
377 U.S. 476 21

Bard Peripheral Vascular, Inc. v. W.L. Gore & Associates, Inc.,
682 F.3d 1003 (Fed. Cir. 2012) 26

Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc.,
393 F.3d 1378 (Fed. Cir. 2005) 8, 26

Carneige Mellon Univ. v. Marvell Tech. Gp.,
2015 WL 4639309 (Fed. Cir. Aug. 4, 2015) 24, 28

Day v. Woodworth,
54 U.S. 363 (1851) 15, 20

General Motors Corp. v. Devex Corp.,
461 U.S. 648 (1983) 15, 18, 19

Global Traffic Techs., LLC v. Morgan,
__ F. App'x __, 2015 WL 3513416
(Fed. Cir. June 4, 2015) 24, 28

Highmark, Inc. v. Allcare Health Management Sys., Inc., 134 S. Ct. 1744 (2014) 26

iLOR, LLC v. Google, Inc., 631 F.3d 1372 (Fed. Cir. 2011) 24

Innovention Toys, LLC v. MGA Entm't, Inc., 611 Fed. Appx. 693 (Fed. Cir. 2015) 28

Jurgens v. CBK, Ltd., 80 F.3d 1566 (Fed. Cir. 1996) 12, 20

Kloster Speedsteel AB v. Crucible, Inc., 793 F.2d 1565 (Fed. Cir. 1986) 22

Knorr-Bremse Sys. v. Dana Corp., 383 F.3d 1337 (Fed. Cir. 2004) (en banc) 22, 24, 25

Lam, Inc. v. Johns-Manville Corp., 668 F.2d 462 (10th Cir. 1982) 16

Martin v. Frankline Capital Corp., 546 U.S. 132 136 (2005) 12

New York Trust Co. v. Eisner, 256 U. S. 345 (1921) (Holmes, J.) 13

Octane Fitness, LLC v. ICON Health & Fitness, Inc., 134 S. Ct. 1749 (2014) ..... *passim*

Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc., 508 U.S. 49 (1993) 26

Read Corp. v. Portec, Inc.,
970 F.2d 816, 827-28 (Fed. Cir. 1992) ..... *passim*

Root v. Railway Co.,
105 U.S. 189 (1882) 14

Safeco Insurance Co. of Am. v. Burr,
551 U.S. 47 (2007) 23

In re Seagate Technology, LLC,
497 F.3d 1360 (Fed. Cir. 2007) (*en banc*) ..... *passim*

Sebelius v. Cloer,
133 S. Ct. 1886 (2014) 12

Seymour v. McCormick,
57 U.S. 480 (1854) 14, 15, 28

Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc.,
620 F.3d 1305 (Fed. Cir. 2010) 24

Teese v. Huntingdon,
64 U.S. 2 (1860) 15, 20

Tilghman v. Proctor,
125 U.S. 136 (1888) 15

Topliff v. Topliff,
145 U.S. 146,164 (1892) 25

Trio Process Corp. v. L. Goldstein's Sons, Inc.,
638 F.2d 661 (3d Cir. 1981) 16

Underwater Devices, Inc. v. Morrison-Knudsen Co., 717 F.2d 1380 (Fed. Cir. 1983) 22

Union Carbide Corp. v. Graver Tank & Mfg. Co., 282 F.2d 653 (7th Cir. 1960) 16

Univ. of Pittsburgh of the Commonwealth Sys. of Higher Educ. v. Varian Med. Sys., 561 Fed. Appx. 934 (Fed. Cir. 2014) 28

WesternGeco L.L.C. v. Ion Geophysical Corp., 791 F.3d 1340 (Fed. Cir. 2015) 28

Statutes

15 U.S.C. § 1681n(a) 23

35 U.S.C. § 67 (1946 ed.) 14

35 U.S.C. § 284 ..... *passim*

35 U.S.C. § 285 ..... *passim*

Patent Act of 1793, Ch 11, § 5 13

Patent Act of 1800, Ch. 25, § 3 13

Patent Act of 1836, ch. 357, 5 Stat. 117 (1836) 14

Patent Act of 1870, ch. 230, § 59, 16 Stat. 198, 207 (1870) 14

Other Authorities

S. Rep. No. 79-1503, at 2 (1946)..... 17

OPINIONS BELOW

The district court granted judgment as a matter of law of no willful infringement, as reported at 2013 WL 2319145 (D. Nev. May 28, 2013), and reproduced at Pet. App. 32a-67a. The court of appeals affirmed the judgment, (Pet. App. 1a-31a), as reported at 769 F.3d 1371 (Fed. Cir. 2014), and denied rehearing *en banc* (Pet. App. 137a-154a), as reported at 780 F.3d 1357 (Fed. Cir. 2015).

JURISDICTION

The Federal Circuit's panel opinion issued on October 22, 2014, and that Court denied a timely rehearing petition on March 23, 2015. Halo petitioned for *certiorari* on June 22, 2015, and this Court granted *certiorari* on October 19, 2015. This Court has jurisdiction under 28 U.S.C. § 1254(1).

CONSTITUTIONAL, STATUTORY, AND REGULATORY PROVISIONS INVOLVED

35 U.S.C. § 284 provides in relevant part:

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.
>
> When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

INTRODUCTION

This appeal centers on the construction of a statute with text that is plain and broad that was historically applied in a flexible manner. For reasons untethered to either interpretive source, the Federal Circuit has adopted a narrow, rigid framework that repeats the same type of error this Court recently corrected in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014) for a similar statute.

Section 284 says simply that "the court may increase the damages up to three times the amount found or assessed." The text imposes no bright-line rules, and permits district judges to address any factual scenario that may justify treble damages, some lesser enhancement, or even no enhancement at all. The statute parallels 35 U.S.C. § 285, which says that a "court in exceptional cases may award reasonable attorney fees to the prevailing party." *Octane* eliminated the Federal Circuit's two-part test for attorney fees, calling it an "inflexible framework" for "inherently flexible" statutory text. Section 284 is broader than Section 285 (it is not limited to "exceptional cases"), yet the Federal Circuit continues to engraft a similar inflexible framework as a prerequisite to enhancing damages. For example, the Federal Circuit bars enhancement if a defendant presents a "non-sham" trial defense, even if it was developed only after years of copying and other bad behavior.

Section 284 should be returned to a plain, "inherently flexible" analysis that, once again, allows district courts to consider and balance all relevant factors when assessing enhancement. The Federal Circuit's rigid *per se* rule ties the hands of judges and lets bad faith infringers off the hook.

STATEMENT OF THE CASE

A. Pulse Copied Halo's Invention and Then Expanded Its Infringement After Spurning Halo's Invitations to License.

1. This suit concerns Halo's patented packaging for "surface mount" transformers, a common circuit component in devices ranging from laptops and networking equipment to heart rate monitors and automobiles. These packages must withstand the expansion of internal components as they are heat-soldered or otherwise attached to the surface of circuit boards. Before Halo's invention, this tremendous heat would often cause the package to crack and fail, imposing enormous costs on customers. (J.A. 21-22, 44-52, 164-165.) These failures plagued everyone in the industry. (*Id.*) Halo's invention solved this problem, which many others, including Pulse, had tried and failed to solve for years. (*Id.*)

Halo began work on its invention in late 1993 and spent months perfecting its patented design. (Dkt. No. 435 at 35-47, 217-38, Dkt. No. 442 at 203-07.) Failure was not an option—Halo is a 15-employee family-owned company, and the surface-mount transformer was its flagship product. (Dkt. No. 435 at 7-13; Dkt. No. 440 at 51-54.) Without a solution, Halo would have been out of business. (*Id.*) While others had focused on tightly encapsulating the materials inside the package, Halo devised an "open construction," that allowed for expansion during heating. (Pl. Trial Exs. 1, 2, 5.) Halo's "open construction" had several other unique features that distinguished it from prior open bottom products, including a critical way of molding the "terminal pins" that attach to the circuit board within the package walls and connecting them to the wires inside the package. (*Id.*)

When Halo introduced the new package to customers, they were initially skeptical it would work. (J.A. 25-28, 55-57.) But the invention's superior performance overcame these worries, and, by 1997, Halo's customers for the patented products included industry stalwarts like Cisco.

2. Pulse, which has about 10,000 employees, had for years been trying to solve the cracking problem, even before Halo's founding. Pulse introduced a variety of unsuccessful designs starting in the mid-1980s and continued to promote those products until Halo's first patent issued, which disclosed its design to competitors. (U.S. Patent 5,015,981 at 1:57-2:3, Figs. 1 & 5; U.S. Patent 5,212,345 at 1:33-43, 3:35-36; J.A. 165-169; Pl. Trial Ex. 154.) Pulse's early-1990s publications criticized Halo's design approach, while touting a different attempt at a solution. (*Id.*) Pulse ultimately failed. Its employees admitted that its design "will crack during the [solder] reflow process" used to affix those transformers to circuit boards. They described this as a "typical failure," and believed "this is a killer for us." (Pl. Trial Ex. 310.)

So Pulse copied. A Pulse engineer saw Halo's first patent in 1998. (J.A. 62-63, 148-151.) That same year, Pulse introduced products with the exact construction disclosed in Halo's patents. (Dkt. No. 464 at 87.) Once Pulse adopted the Halo design, its sales of infringing products soon dwarfed Halo's. (Pl. Trial Ex. 380c.) But, for years, Pulse management did nothing to analyze or investigate its infringement of the patents, even though Pulse employees kept running into Halo's patents. (J.A. 62-63, 148-153.)

The much-smaller Halo could not stop Pulse's infringement. It sent Pulse two mid-2002 invitations to negotiate a license. (J.A. 195-198.) But Pulse never

responded. Meanwhile, Pulse's corporate representative admitted that "I'm not aware of anyone in the company that I know of that made a conscious decision" that Pulse could sell the infringing products after receiving Halo's letters. (J.A. 66-67, 148.) Pulse counted on the fact that a small family business didn't have the resources to take legal action. And for a time, Pulse was right. Halo's financial pressures prevented it from filing suit until 2007 (Pet. App. 60a.)

Pulse never tried to design around Halo's patents and, instead, more than doubled its infringement. (J.A. 59-60, 136-37; Pl. Trial Ex. 380c.) Even after Halo sued, Pulse continued to expand its infringement. A 2008 Pulse email admitted that it was now trying to design "all" new products using Halo's "open" construction. (Pl. Trial Ex. 260.) A 2009 Pulse presentation went even further, explaining that not only would "all" new products use Halo's "open" construction, but that the plan was to "convert" any old models to Halo's "open" construction to meet new standards for lead-free products that required even higher soldering temperatures. (Pl. Trial Ex. 253.)

Pulse's only response at trial was the testimony of an engineer who said he had concluded in 2002 that the patents were invalid (though there were no records of his work). Pulse's corporate representative admitted that the engineer's alleged review was "cursory." (J.A. 132-34, 146-48.) Another Pulse engineer on the project admitted that the products on which his colleague had relied as allegedly invalidating were "irrelevant" to Halo's invention. (J.A. 126-27, 158-59.) In addition, the Pulse engineer who supposedly reviewed Halo's patents was unfamiliar with the relevant law and did not rely on legal advice from anyone in analyzing validity. (J.A. 132-36, 128-29.) Anyway,

the review turned out to be irrelevant, because no corporate decision-maker ever relied on it. (J.A. 147-48.)

B. The Proceedings Below

1. The District Court Was Bound by the Federal Circuit's Rigid, Erroneous Test for Enhancement

Halo sued in 2007 to stop Pulse from infringing three of its patents and sought enhanced damages, based in part on Pulse's willful infringement. (J.A. 15-18.) A jury found the patents valid and infringed, and awarded $1.5 million; the court then enjoined Pulse.

The jury rejected Pulse's defense that the patents were obvious, and credited evidence that showed (i) Pulse and others in the industry copied Halo's invention, (ii) Pulse's own prior publications taught away from Halo's invention, (iii) the Patent Office had already considered and distinguished materially similar prior art to what Pulse relied upon at trial, and (iv) other competitors had licensed Halo's technology based on its technical merits. (Pet. App. 38a-45a.)

The jury also found that Pulse's infringement was willful. (J.A. 191.) The jury was instructed that, to find willfulness, it would have to conclude that "Pulse acted with reckless disregard" of Halo's patents, *i.e.*, "that Pulse actually knew, or it was so obvious that Pulse should have known, that Pulse's actions constituted infringement of a valid patent." (J.A. 174-75.) The jury was also told to consider "whether Pulse acted in a manner consistent with the standards of commerce for its industry." (*Id.*) The jury thus concluded that Pulse acted in bad faith and inconsistently with commercial standards.

Despite these findings, the Federal Circuit's rigid test for § 284 prevented the district court from enhancing damages. That test makes willful infringement a necessary prerequisite to enhanced damages, and then further requires proof that the accused infringer (1) "acted despite an objectively high likelihood that its actions constituted infringement of a valid patent," and (2) "this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer." *In re Seagate Technology, LLC*, 497 F.3d 1360, 1371-72 (Fed. Cir. 2007) (*en banc*). Although the jury found the second prong had been met, the district court concluded that the first prong was blocked because Pulse presented an invalidity defense at trial that "was not objectively baseless, or a sham." (Pet. App. 64a.)

2. The Federal Circuit Failed to Follow This Court's 2014 Decision in *Octane*.

While the present case was before the Federal Circuit, this Court decided *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014). That decision eliminated the rigid, two-step test for attorney fee awards under 35 U.S.C. § 285, and it was directly relevant to the application of 35 U.S.C. § 284 because of the parallels in the statutory text:

35 U.S.C. § 284	35 U.S.C. § 285
"***[T]he court may increase*** the damages up to three times the amount found or assessed."	"***The court in exceptional cases may award*** reasonable attorney fees to the prevailing party."

Nevertheless, the Federal Circuit panel—bound by the prior *en banc* decision in *Seagate*—was unable to apply *Octane's* holding to § 284. The panel thus affirmed the finding of no willfulness because Pulse raised "a substantial question as to obviousness of the Halo patents." (Pet. App. 21a.)

Judges O'Malley and Hughes, however, recognized that *Seagate* is "analogous" to the now-rejected § 285 attorney fee test and inconsistent with *Octane*:

> Our current two-prong, objective/subjective test for willful infringement set out in [*Seagate*] is analogous to the test this court prescribed for the award of attorneys' fees under § 285 in *Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc.*, 393 F.3d 1378, 1381–82 (Fed. Cir. 2005), *overruled by Octane Fitness*, 134 S. Ct. at 1757-58. The parallel between our tests for these two issues is not surprising. Both enhanced damages and attorneys' fees are authorized under similar provisions in title 35. . . .

(Pet. App. 26a.)

They urged their colleagues to reconsider the issue *en banc* because nothing in § 284's text supports the application of a rigid, two-prong test, just as *Octane* held that § 285 did not justified use of the two-prong test for attorney fees:

> Because we now know that we were reading *PRE* [the Federal Circuit's source for the two-prong attorney fee test] too broadly, and have been told to focus on the governing statutory authorization to determine what standards should govern an award of attorneys' fees, we

> should reconsider whether those same interpretative errors have led us astray in our application of the authority granted to district courts under § 284. Just as "the *PRE* standard finds no roots in the text of § 285," [*Octane*, 134 S. Ct. at 1757-58], there is nothing in the text of § 284 that justifies the use of the *PRE* narrow standard. In rejecting the rigid two-prong, subjective/objective test for § 285 under *Brooks Furniture*, the Supreme Court told us to employ a flexible totality of the circumstances test. *Id.* at 1756. We should now assess whether a similar flexible test is appropriate for an award of enhanced damages.

(Pet. App. 28a.) They also urged *en banc* reconsideration of several other issues, including the *de novo* standard of review, the clear and convincing evidence burden of proof, and the submission of part of the inquiry to juries. (Pet. App. 28a-31a.)

But the full court denied rehearing *en banc*. (App. 138a-139a.) Two other judges acknowledged that § 284 "is close to content free in what it says about enhanced damages," (Pet. App. 141a), but thought this case wasn't an appropriate vehicle to reassess the standard. (*Id.* at 140a-145a (Taranto, J., concurring).)

Judges O'Malley and Hughes dissented. (App. 146a-154a.) They reiterated their prior points and noted that their court's test wrongly ignores bad faith behavior if a defendant concocts a non-frivolous defense after being sued by "requir[ing] that an evidentiary wall be erected between the objective and subjective portions of the inquiry," which "preclude[s] considerations of subjective bad faith—no matter how egregious—from informing our inquiry," of the "objective" prong. (Pet. App. 148a.)

SUMMARY OF THE ARGUMENT

1. Section 284's text is plain and broad. It says that "the court may increase the damages up to three times the amount found or assessed," and contains no limitations. The text is "inherently flexible"—just as *Octane* described similar text in § 285—and gives courts the freedom to consider all relevant circumstances in determining whether (and by how much) to enhance damages. Consistent with the broad statutory text, this Court has long approved enhancement "whenever the circumstances require it," including instances of bad faith infringement or where the infringer imposes unnecessary expense and burden on the patent holder. This Court has also said that enhancement can be appropriate even if the patent's validity "is by no means free from doubt," if other aggravating circumstances support it.

2. The Federal Circuit departed from the statutory text and historical application of § 284 in a series of decisions culminating in *In re Seagate Technology LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc). It first limited enhancement to cases of only willful infringement, even though § 284's text includes no such requirement and that limitation contradicts this Court's precedent permitting enhancement for other types of culpable conduct. Then, in *Seagate*, the court imposed a rigid, two-part test for willfulness that was still further from the statutory text, its historical application, and its purpose. The Federal Circuit's test bypasses the historic totality of the circumstances approach from this Court and allows a defendant—even the most malicious infringer—to escape enhancement by developing a non-sham defense at any time. It is also the same as the test rejected last term in *Octane* for the similarly-worded § 285.

3. The Federal Circuit's § 284 framework should be set aside and replaced with the flexible enhancement inquiry mandated by the statutory text, and followed by courts before the Federal Circuit added its atextual limits. District courts should be allowed to consider and balance all relevant facts, such as the defendant's copying, whether (and how much) the defendant investigated a charge of infringement, whether the defendant took steps to avoid infringement or seek a license, and any other commercial considerations that may be relevant in a particular case. No factor should be automatically dispositive, and each should be considered in the total context of the case. Enhancement, for example, should be possible even in a close case in which other aggravating conduct justifies enhancing damages to punish, deter, or compensate. Moreover, the preponderance standard should apply, and appellate review should be for abuse of discretion.

4. Because use of the wrong legal framework prevented the courts below from properly considering enhancement, this Court should vacate the judgment and remand for the district court to do so under the flexible text of § 284. The district court here could well have concluded that Pulse's copying, disregard of Halo's attempts to license, consistent expansion of its infringing product line, and other behavior that drove up costs of its much-smaller competitor warranted enhancement. Yet the district court's hands were tied because, under *Seagate*, Pulse's "non-sham" trial defense automatically wiped away a decade of culpable behavior.

ARGUMENT

I. Section 284 Gives District Courts Flexibility to Balance All Relevant Facts When Deciding to Enhance Damages.

A. The Statutory Text Is Plain and Broad.

This case turns on the proper construction of 35 U.S.C. § 284. When construing a statute, the Court "start[s], of course, with the statutory text" and generally interprets statutory terms "in accordance with their ordinary meaning." *Sebelius v. Cloer*, 133 S. Ct. 1886, 1893 (2014). Section 284's text is undeniably plain—it says only that "the court may increase the damages up to three times the amount found or assessed." Nothing in the text calls for a particular approach to assessing enhancement. Nothing restricts enhancement to cases of "willful infringement." And nothing imposes any *per se* rule against enhancing damages in particular situations, such as when a defendant raises a non-sham trial defense. Rather, the text uses the word "may," which "clearly connotes discretion," *Martin v. Frankline Capital Corp.*, 546 U.S. 132 136 (2005), and leaves the proper considerations for "the court" to determine on a case-by-case basis.

The Federal Circuit itself recognized the text's plain and broad meaning when it acknowledged that it was imposing an artifice onto § 284 "absent a statutory guide." *In re Seagate Technology, LLC*, 497 F.3d 1360, 1368 (Fed. Cir. 2007) (*en banc*); *see also Jurgens v. CBK, Ltd.*, 80 F.3d 1566 (Fed. Cir. 1996) ("*Absent statutory instructions*, we have interpreted the increased damages part of section 284 as requiring a two step process."). Some Federal Circuit judges rightly expressed concern about this approach, protesting their court's imposition of a willfulness requirement

where "the language of the statute unambiguously omits any such requirement" and "there is no principled reason for continuing to engraft a willfulness requirement onto section 284." *Seagate*, 497 F.3d at 1377 (Gajarsa, J., concurring).

B. The Application of § 284's Predecessors Provided Flexibility for District Courts.

This case is one in which "a page of history is worth a volume of logic." *New York Trust Co. v. Eisner*, 256 U. S. 345, 349 (1921) (Holmes, J.). The history of § 284 shows that enhanced damages were used to punish many types of culpable conduct, not just willful infringement, and to ensure a plaintiff was fully compensated. It also shows that earlier, similarly-worded versions of § 284 were interpreted with the same flexibility that the current text provides.

The first patent statute (of 1790) provided only for actual damages, without any possibility of enhancement. In the Patent Acts of 1793 and 1800, Congress made trebling mandatory in all patent cases:

- Patent Act of 1793, Ch 11, § 5 (patentee entitled to damages that are "at least equal to three times the price, for which the patentee has usually sold or licensed to other persons, the use of [the invention]...");
- Patent Act of 1800, Ch. 25, § 3 (patentee entitled to "a sum equal to three times the actual damages sustained by patentee.").

Mandatory trebling proved too draconian, however, because it hit all defendants equally, even those who may not have been culpable. Congress thus amended the statute in 1836 to give "the court" the discretion (but not the obligation) to increase damages

in an appropriate case up to three times the amount awarded by the jury:

> [I]t shall be in the power of the court to render judgment for any sum above the amount found by such verdict . not exceeding three times the amount thereof, according to the circumstances of the case.

Patent Act of 1836, ch. 357, 5 Stat. 117 (1836). As this Court explained with respect to that change, "experience has shown the very great injustice of a horizontal rule equally affecting all cases, without regard to the merits." *Seymour v. McCormick*, 57 U.S. 480, 488 (1854). "The defendant who acted in ignorance or good faith, claiming under a junior patent, was made liable [under the 1793 and 1800 Acts] to the same penalty with the wanton and malicious pirate." *Id.* "It was to obviate this that the Patent Act of 1836 confined the jury to the assessment of actual damages, leaving it to the discretion of the court to inflict punitive damages to the extent of trebling the verdict." *Root v. Railway Co.*, 105 U.S. 189, 196 (1882). The 1836 Act thus "restore[d] the flexibility of remedy that is the traditional judicial province." *Seagate*, 497 F.3d at 1378 (Gajarsa, J., concurring).

Congress carried this discretionary language into subsequent statutory revisions in the 1870 and 1946 Acts. The 1870 Act, in relevant part, stated, "the court may enter judgment thereon for any sum above the amount found by the verdict as the actual damages sustained, according to the circumstances of the case, not exceeding three times the amount of such verdict, together with the costs." Patent Act of 1870, ch. 230, § 59, 16 Stat. 198, 207 (1870). The 1946 Act had nearly identical language. *See* 35 U.S.C. § 67 (1946 ed.). In the 1952 Act, the language was simplified into

its current form. The changes to § 284 simply "consolidated" the damages provisions for law and equity from the prior statutes, and were "merely 'reorganization in language to clarify the statement of the statutes,'" not an attempt to substantively change anything. *General Motors*, 461 U.S. at 652 (quoting H.R. Rep. No. 1923, 82d Cong., 2d Sess., at 10, 29 (1952)).

This Court consistently interpreted § 284's predecessors to give district courts wide latitude to enhance damages whenever the relevant facts required it. For example, in *Seymour v. McCormick*, the Court noted that district courts were to apply sound "discretion and judgment," as permitted by the plain statutory language:

> The power to inflict vindictive or punitive damages is committed *to the discretion and judgment of the court* within the limit of trebling the actual damages found by the jury.

57 U.S. 480, 488-89 (1853) (emphasis added). Other precedent reiterated this flexible view of the statute. *See Tilghman v. Proctor*, 125 U.S. 136, 143-44 (1888) ("[T]he court may, *whenever the circumstances of the case appear to require it*, inflict vindictive or punitive damages, by rendering judgment for not more than thrice the amount of the verdict.").

Precedent also permitted enhancement for bad faith infringement *or* other circumstances in which the defendant "caused unnecessary expense and injury" to the plaintiff. *Teese v. Huntingdon*, 64 U.S. 2, 9 (1860); *see also Day v. Woodworth*, 54 U.S. 363, 372 (1851). The upshot was that enhancement could be appropriately punitive, compensatory, or both, depending on the facts of the case.

C. The Lower Courts Also Recognized § 284's Broad Language and Applied a Flexible Standard Before *Seagate*.

Following the plain text and historical practice underlying § 284, the lower courts, in large part, analyzed enhancement in the flexible manner required by its text. There was some difference of opinion on whether enhancement should be a single inquiry, or should instead be a two-step inquiry, in which there must first be an initial showing of "willfulness" or other culpability, followed by a subsequent consideration of whether to enhance.‡ Nevertheless, courts generally applied a flexible approach in which they looked at all the relevant facts.

The Federal Circuit in *Read Corp. v. Portec, Inc.*, compiled a list of the common factors considered by courts in enhancing damages under § 284:

- Whether the infringer deliberately copied;
- Whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed;

---

‡ *Compare, e.g., Lam, Inc. v. Johns-Manville Corp.*, 668 F.2d 462, 474 (10th Cir. 1982), *and Union Carbide Corp. v. Graver Tank & Mfg. Co.*, 282 F.2d 653, 675 (7th Cir. 1960) (enhancement limited to cases of willfulness), *with Am. Safety Table Co. v. Schreiber*, 415 F.2d 373, 379 (2d Cir. 1969) (enhancing based on the totality of the circumstances for infringement "with deliberation and abandon" but not "with the ultimate willfulness"), *and Trio Process Corp. v. L. Goldstein's Sons, Inc.*, 638 F.2d 661, 662-63 (3d Cir. 1981) (declining to limit enhancement to willfulness).

- The infringer's behavior as a party to the litigation;
- Defendant's size and financial condition;
- Closeness of the case;
- Duration of the defendant's misconduct;
- Remedial action, if any, taken by the defendant;
- Defendant's motivation for the harm; and
- Whether defendant attempted to conceal its misconduct.

970 F.2d 816, 827-28 (Fed. Cir. 1992) (citing prior cases discussing each factor). *Read* directed district courts to balance these considerations with § 284's flexibility in mind, explaining that the enhancement determination should be "based on all the facts and circumstances" and that courts "must consider factors that render defendant's conduct more culpable, as well as factors that are mitigating or ameliorating." *Id.* at 826.

These factors captured both this Court's concern that enhancement should be tied with some level of culpability, and the flexibility of § 284's text. Taken together, the factors permit a judge to consider all the facts about a particular defendant's conduct and determine how much (if any) enhancement is needed to compensate the plaintiff for any unrecovered costs, to punish the defendant for misconduct, and to deter others from similar bad behavior. In this way, they serve the statutory purpose, which was to "discourage infringement of a patent by anyone thinking that all he would be required to pay if he loses the suit would be a royalty." S. Rep. No. 79-1503, at 2 (1946).

D. *Octane* and *General Motors* Require Enforcing § 284 as Written.

This Court has already recognized that open and flexible statutory text like that here should not be narrowed by judicial fiat.

The prime example, decided just last term, is *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014). There, this Court interpreted the attorney fee provision of 35 U.S.C. § 285, and observed that "our analysis begins and ends with the text of § 285," which was "patently clear" and imposed "one and only one constraint on district courts' discretion to award attorney's fees in patent litigation: The power is reserved for exceptional cases." *Id.* at 1755-56. After observing that "exceptional" simply means a case that "stands out from others," this Court eliminated the Federal Circuit's rigid, two-prong test and freed district courts to consider and balance all relevant facts.

The same analysis applies here. The text of § 284 is even broader than that of § 285 because it does not restrict enhancement to "exceptional cases." History teaches that enhancement should be reserved for culpable conduct, analyzed using the traditional factors collected by *Read* and other cases. No basis exists for a rigid, multi-prong test that makes any one fact dispositive or requires the district court to close its eyes to egregious behavior like copying or purposely ignoring a patentee's attempts to license. And nothing in the statute requires a district court to ignore almost a decade of bad pre-suit conduct simply because the defendant develops a non-frivolous defense after it is sued. The statutory text and historical practice allow the district court to consider and weigh every fact.

Another example, which addressed part of § 284, is *General Motors Corp. v. Devex Corp.*, 461 U.S. 648 (1983). That provision, which is also plain and broad, says that "the court shall award ... interest." This Court refused to constrain a district court's ability to award interest, because "on the face of § 284, a court's authority to award interest is not restricted to exceptional circumstances," and "when Congress wished to limit an element of recovery in a patent infringement action, it said so explicitly." *Id.* at 653. The Court contrasted the interest provision with the attorney fee provision, noting that the latter was restricted to "exceptional cases," while "the power to award interest was not similarly restricted." *Id.*

The same is true here. Section 284 does not impose any limitations on enhancement of damages, so district courts have discretion to analyze the issue consistent with this Court's historical practice and to look to all factors that may indicate that the defendant has the necessary culpability. If Congress wanted to further constrain that discretion, it would have said so explicitly. No statutory basis exists to treat enhanced damages more restrictively than attorney fees, given that the statute itself imposes greater constraints on fee awards. Therefore, given *Octane*'s holding that a rigid two-prong test cannot stand in the attorney fee context, it certainly cannot stand in the broader and more flexible enhanced damages context.

II. The Federal Circuit Has No Support for Its Application of § 284.

The Federal Circuit's current approach to enhanced damages has diverged from the statutory text and this Court's precedent in five ways. First, that court has required that willfulness be found as a pre-

requisite to considering any other enhancement considerations. Second, *Seagate* imposed a rigid two-part test that required a patentee to prove the defendant's position was objectively reckless before it would even consider the defendant's actual behavior. Third, in this case, the court held that the objective recklessness could be measured, not against the facts that faced the defendant when it infringed, but with an any-defense-at-any-time approach, that allows even the most egregious infringer to escape punishment if it can develop a non-sham defense at trial. Fourth, it imposed a clear and convincing burden of proof. Fifth, the court has applied *de novo* review inconsistent with the discretionary nature of the flexible district court-level enhancement determination. The Federal Circuit has thus layered scar on top of scar, and spun a straightforward statute into an artifice unsupported by the § 284 text or this Court's precedent.

A. There Is No Support for Requiring Willful Infringement to Enhance Damages.

The Federal Circuit made willfulness a necessary prerequisite to enhancement in *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 (Fed. Cir. 1996) and again in *Seagate*. Setting willfulness as a necessary predicate over every other possible consideration conflicts with this Court's precedent. For example, in *Teese v. Huntingdon*, 64 U.S. 2, 9 (1860), the Court noted that, "if, in the opinion of the court, the defendant *has not acted in good faith, or has caused unnecessary expense and injury to the plaintiff*, the court may render judgment for a larger sum, not exceeding three times the amount of the verdict." And in *Day v. Woodworth*, 54 U.S. 363, 372 (1851), the Court again focused on bad faith or other culpable activity: "If, in the opinion of the court, the defendant has *not acted in good faith, or*

has been stubbornly litigious, or has caused unnecessary expense and trouble to the plaintiff, the court may increase the amount of the verdict, to the extent of trebling it."

Contrary to the Federal Circuit's view in *Seagate*, this Court's post-1952 decision in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, did not narrow § 284 to permit enhancement for only "willful infringement." The Court listed a number of remedies available to a patentee, including that "it could in a case of willful or bad-faith infringement recover punitive or 'increased' damages under the statute's trebling purpose." *Id.* at 508. *Aro* thus simply reiterated that willfulness is one basis to enhance damages—it did not change the law and make willfulness the only basis for enhancement. *Seagate*, 497 F.3d at 1381 (Gajarsa, J., concurring) (explaining that this Court's post-1952 cases "do not hold that a finding of willfulness is *necessary* to support an award of enhanced damages," but, at most, "stand for the uncontroversial proposition that a finding of willfulness is *sufficient* to support an award of enhanced damages"). Therefore, willfulness is one factor—perhaps an important factor—for the court to consider along with any other factors that may be relevant in a particular case.

B. The Federal Circuit's Two-Part "Willfulness" Test Conflicts with the Statute.

The Federal Circuit further compounded its error in *Seagate* by departing from traditional patent precedent on the level of culpability required for enhancement. *Seagate* arose as an attempt to fix years or problems that had plagued the Federal Circuit's earlier willfulness jurisprudence. The trouble began after the Federal Circuit imposed an affirmative duty on a defendant who had learned of a patent to get an

exonerating opinion of counsel, and then forced them to either waive privilege over that opinion or face an adverse inference that it was negative. *See, e.g., Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983); *Kloster Speedsteel AB v. Crucible, Inc.*, 793 F.2d 1565, 1580 (Fed. Cir. 1986). The Federal Circuit partially corrected this problem by eliminating the adverse inference in *Knorr-Bremse Sys. v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (*en banc*). But this still left lingering questions about the scope of the privilege waiver for defendants who nevertheless wanted to rely upon an opinion of counsel.

Seagate dealt with one such question—whether a defendant's waiver of privilege over a pre-suit opinion of counsel also extended to its later communications with trial counsel on the same issue. *Seagate*, 497 F.3d at 1366-67. The *Seagate* majority dealt with this, in part, by restricting "willful infringement" to only "objectively reckless" behavior, and therefore held that "a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." *Id.* at 1371. The majority stressed that "the state of mind of the accused infringer is not relevant to this objective inquiry," and thereby created a way for defendants to negate willfulness without discussing their own actions or thoughts, or whether they obtained a pre-suit opinion. *Id.* The Court further added a second prong to the willfulness test—"the patentee must also demonstrate that this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer." *Id.*

Seagate attempted to justify its new rigid test not with the text of § 284 or this Court's precedent that addressed the predecessor provisions, but rather with a citation to *Safeco Insurance Co. of Am. v. Burr*, 551 U.S. 47 (2007), a case that interpreted the statutory language of the Fair Credit Reporting Act that imposed liability against anyone who "willfully fails to comply" with the Act. *See* 15 U.S.C. § 1681n(a). *Safeco* addressed whether this language extended "only to acts known to violate the Act" or also included "reckless disregard of a statutory duty." *Safeco*, 551 U.S. at 56-57. After acknowledging that "willfully is a word of many meanings whose construction is often dependent on the context in which it appears," *id.* at 57, the Court held that, for that particular statute, the provision included both knowing and reckless statutory violations, and then enunciated a test for recklessness. *Id.* at 57-60, 68-71. *Seagate* wrongly imported that objective recklessness test into patent law as the sole prerequisite to enhancing damages, even though *Safeco* itself plainly held that both knowing *and* reckless violations were "willful." *Id.* at 57-60. And it did so based on a word—willful—that does not appear in § 284.

Seagate thus repeated the same error that this Court corrected last term in *Octane*. There, the Federal Circuit had improperly imported a comparable two-prong test involving the *Noerr-Pennington* exception for antitrust liability into the patent statute dealing with attorney fees. *Octane*, 134 S. Ct. at 1756-58. This Court rejected that approach because the antitrust standard "finds no roots in the text of § 285, and it makes little sense in the context" of patent law. *Id.* at 1757. Here, the Federal Circuit has imported a test for the Fair Credit Reporting Act into another flexible patent statute. Indeed, the Federal Circuit has

equated the two-prong test for enhancement with its two-prong test for attorney fees. *See iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1377 (Fed. Cir. 2011). And, as with § 285, the two-prong test "finds no roots" in the text of § 284, and it "makes little sense" given the purpose and historical application of § 284.

C. There Is No Basis for the Federal Circuit's "Any-Defense-at-Any-Time" Approach.

Seagate's progeny have further compounded the Federal Circuit's error by looking not to the facts that faced a defendant when it infringed, but to later-developed defenses. Those subsequent decisions have held that a defendant does not meet the "objective" part of the *Seagate* test if the defendant presents any non-sham trial defense, even one developed only after years of bad behavior that forces a patentee to file a lawsuit. *See, e.g., Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc.*, 620 F.3d 1305, 1319 (Fed. Cir. 2010); *Halo*, 769 F.3d at 1382-83; *Global Traffic Techs., LLC v. Morgan*, 2015 WL 3513416, at *7-8 (Fed. Cir. June 4, 2015); *Carneige Mellon Univ. v. Marvell Tech. Gp.*, 2015 WL 4639309, at *12 (Fed. Cir. Aug. 4, 2015). These cases require district courts to ignore the defendant's real-world acts (e.g., copying), because they treat it as relevant only to *Seagate*'s "subjective" prong.

This is a dramatic departure from this Court's precedent. No legal basis exists to let a willful infringer off the hook solely because it raised a reasonable, but unsuccessful defense at trial. In fact, this Court previously remarked that it would "not have disturbed the decree of the court below, if it had seen fit to increase the damages," in a complicated case that involved the validity of a reissue patent, even

though "the patentable novelty in [the patented] device is *by no means free from doubt*." *Topliff v. Topliff*, 145 U.S. 146,164, 174 (1892). That contradicts any *per se* rule against enhancement even in close cases. Instead, it shows that if a defendant acts culpably for some period of time, the district court has discretion to consider if, and by how much, to enhance damages no matter what defenses were ultimately raised at trial.

Seagate and its progeny are also a dramatic departure from the Federal Circuit's prior approach. Indeed, just a few years earlier, the *en banc* Federal Circuit had repudiated any *per se* rule, stressing that a "determination of willfulness is made on consideration of the totality of the circumstances," *Knorr-Bremse*, 383 F.3d at 1343, and declining to make the existence of a defense to infringement a fact that could always defeat willfulness. *Id.* at 1347 On the latter point, the court wisely explained that, although the existence of a defense should "be considered among the totality of the circumstances," it was inappropriate to abstract it "for *per se* treatment, for this greater flexibility enables the trier of fact to fit the decision to all of the circumstances." *Id.* This more flexible view was also consistent with *Read*, which identified "closeness of the case" as one factor relevant to enhancement, but left open the possibility that other factors (e.g., copying and failure to design around) could justify enhancement in an appropriate case. *Seagate* and its progeny abruptly abandoned this approach.

D. The Federal Circuit's Standards of Proof and Appellate Review Are Unsupported.

Judge O'Malley astutely flagged two other parts of the Federal Circuit's current approach that diverge from the statute. (Pet. App. 28a-29a.)

For starters, the Federal Circuit applies the clear and convincing evidence standard for proving willfulness. (Pet. App. 28a-29a.) Yet Section 284 itself imposes no heightened burden, and, as in *Octane*, provides no basis to depart from the typical burden in civil cases. *Octane*, 134 S. Ct. at 1758 ("[W]e reject the Federal Circuit's requirement that patent litigants establish their entitlement to fees under § 285 by clear and convincing evidence.").

Moreover, the Federal Circuit reviews the "objective recklessness" prong of *Seagate de novo*. *See Bard Peripheral Vascular, Inc. v. W.L. Gore & Associates, Inc.*, 682 F.3d 1003, 1007 (Fed. Cir. 2012). The court reasoned that it should follow the approach from *Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005), which, in turn, borrowed from *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, 508 U.S. 49 (1993). But this Court wholly undercut the connection between *PRE* and *Brooks Furniture* in *Highmark, Inc. v. Allcare Health Management Sys., Inc.*, 134 S. Ct. 1744 (2014), making clear that the rationale underlying *PRE* had no application to the very different situation involved in *Brooks Furniture* and thus to the award of attorney fees in patent law. Likewise, *PRE* has no application to the enhancement determination of § 284, which is virtually identical to the attorney fees determination of § 285. In particular, the text of § 284 (just like § 285) uses the word "may" to connote discretion, which makes sense, because the district court "is better positioned" to decide enhancement "because it lives with the case over a prolonged period of time." *Highmark*, 134 S. Ct. at 1748.

III. This Court Should Restore Enhanced Patent Damages Law to the Flexible Inquiry Required by § 284.

The proper approach to determining whether, and by how much, to enhance damages under § 284 should be a simple, flexible one that is consistent with the statutory text. The *Read* factors provide a starting point to guide district courts. Some may be more important that others, especially in a particular case. For example, considerations relevant to the defendant's culpability—*e.g.*, copying, failing to investigate a known patent or to take steps to avoid infringement, and any actions the defendant took that inflicted further expense on the plaintiff—can be given more weight than other factors. Context is also important when assessing the factors. A defendant that learns of a patent in the course of copying a competitor's product or through letters from the patent owner is plainly more culpable than one who stumbles upon the patent in a stack of dozens without any knowledge that it might infringe.

District judges are well-positioned to apply and balance all relevant factors. After all, culpable conduct often falls along a continuous spectrum, rather than at one extreme end or the other. Some aspects of the inquiry are binary (did the defendant copy or not?), but others are more fluid (was the defendant's investigation non-existent, cursory, average, or thorough?). Similarly, a party's level of culpability may change over time as it receives more information (such as new legal advice) or as it changes its products to be more or less like the patent. Some factors may have a different level of importance depending on the totality of the defendant's conduct. Although enhancement

may not be warranted for a close case where the defendant was mildly culpable, it may well be warranted where the case was close but should never have been necessary because the defendant copied, ignored the plaintiff's licensing attempts, or otherwise acted unreasonably. The problem with the Federal Circuit's current approach is that it makes one factor—closeness of the case—dispositive, even in situations in which all the other facts show that enhancement is needed to punish, deter, and compensate.

The Federal Circuit has created a situation in which patent holders will almost never receive enhanced damages. Every defendant, no matter how culpable, can concoct a non-sham argument that the patent is invalid, even if they are the most "malicious pirate" this Court called out in *Seymour*. 57 U.S. at 488. The Federal Circuit has blocked enhancement in seven cases involving bad faith conduct in little over a year, including the two consolidated cases here. *See, e.g.*, *Carnegie Mellon*, 2015 WL 4639309, at *12; *WesternGeco L.L.C. v. Ion Geophysical Corp.*, 791 F.3d 1340, 1354 (Fed. Cir. 2015); *Global Traffic*, 2015 WL 3573416, at *7-8 (Fed. Cir. Jun. 4, 2015); *Innovention Toys, LLC v. MGA Entm't, Inc.*, 611 F. App'x 693, 701 (Fed. Cir. 2015); *Univ. of Pittsburgh of the Commonwealth Sys. of Higher Educ. v. Varian Med. Sys.*, 561 Fed. Appx. 934, 945 (Fed. Cir. 2014). We are thus back to the "very great injustice of a horizontal rule equally affecting all cases, without regard to the merits," *Seymour*, 57 U.S. at 488, because copyists owe no more than unwitting infringers.

Returning the enhancement inquiry to the statutory text will not open a Pandora's box of runaway trebling. Experienced district judges will be analyzing enhancement, subject to abuse of discretion review on

appeal. This Court's precedent, and other appropriate guidance, like that provided in *Read*, can identify the factors that are typically relevant and the proportionate importance of each such factor in a particular case.

The bottom line is that Congress entrusted the decision to enhance to the sound discretion of district courts 180 years ago. The flexible statutory text has never materially changed. And there was no history of problems with over-zealous judges improperly enhancing. Instead, the Federal Circuit crafted an atextual analysis in *Seagate* to resolve a privilege dispute. It is time to restore district courts' authority to apply that statute flexibly to serve its appropriate purpose.

IV. This Court Should Vacate the Judgment and Remand So the District Court Can Apply the Correct Legal Standard.

The district court here should have the opportunity to consider enhancement under the correct legal standard based on all the relevant facts. The evidence showed an ample basis to conclude that Pulse engaged in culpable conduct that warrants an enhancement of the damages awarded to Halo.

For example, Pulse copied Halo's invention after seeing Halo's patents, after failing for years to solve the cracking problem on its own, and despite previously criticizing aspects of the very design it copied. Pulse then expanded its infringement for nearly a decade while ignoring Halo's attempts to license the patents. Its only excuse was an admittedly "cursory" analysis by a non-lawyer who knew nothing about the relevant legal principles, could not produce any written evidence of the analysis, and relied on prior art that his colleague said at trial was "irrelevant" to

Halo's invention. In fact, Pulse's corporate representative admitted that no one in the company made a conscious decision that Pulse could properly sell its infringing product.

Pulse's conduct only worsened after it was sued in 2007. It shifted "all" its new surface mount transformers to Halo's design, and litigated this case to the bitter end, even after the Patent Office rejected its obviousness arguments in a reexamination, and even after a jury rejected materially similar obviousness arguments at trial. Pulse's conduct stood in stark contrast to its competitors, four of which licensed the Halo patents. Through it all, Pulse used its much-greater resources to take advantage of a small competitor, betting on the fact that Halo would not be able to defend its rights.

The district court could certainly have found that those facts provide a sufficient basis to enhance damages. Instead, the Federal Circuit's *Seagate* test required the court to ignore Pulse's years of malfeasance only because its lawyers concocted a "non-sham" obviousness defense for trial. The court could certainly have considered that defense as one factor among the others. But the court should have had the opportunity to consider all the facts together. *Seagate* denied it that opportunity.

CONCLUSION

For the reasons above, this Court should vacate the judgment and remand so the district court can entertain a motion for enhanced damages under the correct legal standard.

Respectfully submitted,

CRAIG E. COUNTRYMAN
Counsel of Record
Fish & Richardson P.C.
12390 El Camino Real
San Diego, CA 92130
(858) 678-5070
countryman@fr.com

MICHAEL J. KANE
WILLIAM R. WOODFORD
JOHN A. DRAGSETH
Fish & Richardson P.C.
3200 RBC Plaza
60 South Sixth Street
Minneapolis, MN 55402
(612) 335-5070

Counsel for Petitioner
Halo Electronics, Inc.

December 9, 2015